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S E C R E T SECTION 01 OF 02 DAKAR 000732

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E.O. 12958: DECL: 06/10/2028
TAGS: EFIN EINV KCOR PGOV PREL EAID SG
SUBJECT: BUDGET MINISTER TRIES TO REASSURE CHARGE ON GOS' SALE PLANS FOR SONATEL SHARES

REF: DAKAR 588

DAKAR 00000732 001.4 OF 002

Classified By: CHARGE D'AFFAIRES, A.I. JAY T. SMITH, FOR REASON 1.4 (B) AND (D).

SUMMARY

¶1. (S) Senegal's Budget Minister Sarr attempted to reassure Charge that the government's proposal to sell its large stake in Sonatel is being carefully studied with an eye to preserving the national interest. The impression he gave, however, was that the Presidency is determined to sell, and likely as a non-transparent private/strategic offering. Sarr indicated that the government would likely use the windfall for investment projects in the hopes of promoting economic growth and recovering the 12 percent of lost revenue in the mid-term. He outlined an agreement with Rothschilds Bank, negotiated by the Presidency, that appears to give every incentive for the study to conclude that a private deal is thebest option. We are hoping the IMF Resrep will beable to review this document because a Ministry f Finance contact believes it includes provision for a pre-arranged and corrupt recommendation.

GOS WILL LIKELY SELL

¶2. (C) Charge, accompanied by Econ Counselor, met wit Deputy Finance Minister in Charge of the BudgetIbrahima Sarr on June 4 to discuss our concerns about the government of Senegal's (GOS) reported plans to sell its 28 percent stake in the country's top telecommunications company, Sonatel. (Note: Sarr is reportedly one of the key players in organizing the government's efforts on the share sale. End note.) Sarr tried to be reassuring in outlining what he said was the government's line of thinking in considering the divestment of this important asset. He explained that one consideration was the possibility that Sonatel's share price would soon drop, particularly if the company was not effective in expanding its business in the sub-region while also facing new competition from the entry of Sudatel into the local market in the coming year.

¶3. (C) Minister Sarr asserted that the sale will only make sense if the proceeds (up to USD 1 billion if all shares are sold) go to projects that will enhance economic growth in the mid- to long-term. Sarr did not offer any specific examples of investment projects, nor did he discuss the possibility of using that income for different investment instruments. He did, however, make the disconcerting point that he could cut programs in the budget to make up for the forgone near-term income. (Note: This could equal up to 12 percent of annual revenue at a time when the government is struggling with a large budget deficit and remains dependent on donor budget support to close the gap. End note.) Sarr admitted that the government must reassure both Sonatel's employees (who have publicly stated their opposition) and the company's majority owner, France Telecom (which has apparently expressed its own concerns privately).

¶4. (C) Charge made the point that there are many examples from around the globe of countries being surprised by unexpected difficulties, including "leakage," in investing large windfalls in a manner that can be assured of increasing growth and enhancing government revenues. Sarr acknowledged the point and said that is why they are studying their options. In the end, however, we had the strong impression that the Wade administration had already made up its mind to sell at least a large portion of its Sonatel shares. Sarr himself underscored this assessment by noting that the issue was being pushed by the Presidency.

PRIVATE CONTRACT ALREADY SIGNED?

¶5. (C) Sarr confirmed that a non-competitive contract for two million Euros had been negotiated and approved by the

Presidency for Rothschild's bank to conduct a feasibility study on the fiscal impacts of the proposed sale and on the best way to proceed -- whether a private or public offering. (Note: last week the IMF Resrep told EconCouns that he met with Sarr and was told that the contract was in fact signed for USD 5 million. End note.) In an unusual clarification, Sarr stated that the contract paid only one million Euros up front and the other million only if the study recommended selling the shares. Sarr stated that a decision on the sale could happen within six months.

¶6. (S) Sarr's outline of the contract process more or less conforms to what we have been told. However, as noted in Reftel, the contract is being very closely held. When asked if the contract was, in fact limited to the feasibility study, a senior official at the Ministry of Finance, who has seen the document, said yes and no. According to our contact, the contract is nominally for the study, but it contains a clause granting Rothschilds Bank the right to act as the strategic advisor (with the previously mentioned 1.5 percent commission) should the study conclude that a private/strategic sale is the best course of action. Our MOF contact also claims that a clause in the contract permits Rothschilds the right to select the buyers. The bank, apparently, has everything to gain by promoting a private sale.

¶7. (C) Sarr admitted that the IMF Resrep had not actually seen the contract, but he offered to share it if asked.

COMMENT

¶8. (C) There is still no clarity on this matter. Most of our contacts feel that the sale will happen, with many believing that the deal with Rothschild is fait accompli, including the sale of shares to select parties. Even giving the GOS all the benefit of doubt, we have serious concerns that this administration is not prepared to wisely invest any significant windfall, and that the funds would quite possibly go to more of President Wade's "prestige projects." We will

encourage the IMF Resrep to follow-up on the offer to review the approved contract. In addition, we hope the Minister of Finance, who reportedly advised against the sale and was outside the process that established the agreement with Rothschilds, will be able to underscore to President Wade the importance of transparency and objectivity in such an important matter.
SMITH